

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Transcript - Joint Economic Committee Hearing re
Chinese and Soviet Economies - 20 Sept 1983

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INITIALSCOMMENTS (Number each comment to show from whom
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Attached for your review
is the transcript from the
20 September JEC hearing.
Please make whatever minor
corrections you deem necessary.

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Also, please furnish infor-
mation for the record, as
promised.

If you have any questions,
please contact
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C O N T E N T S

STATEMENT OF:

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ROBERT GATES,
Chairman, National Intelligence
Council and Deputy Director for
Intelligence, Central Intelligence
Agency,
accompanied by

[REDACTED]

Office of Soviet Analysis;

[REDACTED]

Office of Global Issues; and

[REDACTED]

~~Chinese Economist~~

Office of East Asian Analysis

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Hearing on

CHINESE AND SOVIET ECONOMIES

TUESDAY, SEPTEMBER 20, 1983

DDI-842/83

United States Congress,

Joint Economic Committee,

Subcommittee on International
Trade, Finance, and Security
Economics

Washington, D.C.

The subcommittee met at 10:00 a.m. in Room SD-538,
Dirksen Senate Office Building; the Honorable William
Proxmire, chairman of the subcommittee, presiding.

Senator present: Proxmire and Sarbanes.

Representatives present: Scheuer and Wylie.

Staff present: Charles H. Bradford and Richard F.
Kaufman.

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3

S E C R E T

Senator Proxmire. The subcommittee will come to order.

Gentlemen, welcome. I'm delighted to see you here this morning. I'm happy to welcome Robert Gates, the new Chairman of the National Intelligence Council and the Deputy Director for Intelligence for the Central Intelligence Agency to this year's hearing on the allocation of resources in the Soviet Union and China.

With respect to the Soviet Union, we've asked that the presentation focus on economic policy changes that have been made or are likely to be made under the new Andropov government, as well on recent economic performance and the prospects for the next few years.

We also want to discuss the trends,^{the} recent trends in defense allocations. ✓

Concerning China, we would like you to explain China's recent economic performance, its priorities as between heavier and lighter industries and the reforms which appear to be encouraging decentralization in private enterprise in what appears to be a remarkable growth in China and economic progress in China, compared to past performance.

Your excellent prepared briefings have been sent to us in advance of this hearing. I assume you^{will} summarize the ✓

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briefings, giving us the highlights and allowing us to use the balance of the hearing for questions.

I want to urge you to provide us with an unclassified version of the briefing as soon as possible, so that it can be released to the general public. Also, I hope the record of this morning's hearings can be sanitized quickly.

We know that we have already heard testimony from your counterpart, the Defense Intelligence Agency, that testimony, plus your own, will comprise the published proceedings of this hearing.

By the way, I'd like to mention, as I did to General Bissell before you, that this marks the 10th anniversary of these hearings, which I initiated in 1974. I think we can all be proud of the record that has been compiled, especially the contributions by the spokesmen for the intelligence community, such as yourself. With any luck and continued cooperation, the series will continue.

Mr. Gates, you may introduce the people who accompanied you and then proceed with your presentation.

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STATEMENT OF ROBERT GATES, CHAIRMAN, NATIONAL
INTELLIGENCE COUNCIL AND DEPUTY DIRECTOR FOR
INTELLIGENCE, CENTRAL INTELLIGENCE AGENCY,

ACCOMPANIED BY [REDACTED]

OFFICE OF SOVIET ANALYSIS, [REDACTED]

OFFICE

OF GLOBAL ISSUES, AND [REDACTED],

OFFICE
CHINESE

OF EAST ASIAN ANALYSIS
ECONOMIST.

Mr. Gates. Thank you, Mr. Chairman. I am accompanied

by four people: [REDACTED]

of

our Office of Soviet Analysis, on my left; [REDACTED]

on my right, of our Office of Global Issues, who works on

Soviet energy matters; and [REDACTED]

a specialist
our Chinese

on the Chinese economy in our Office of East Asian
Economist. Analysis.

As you requested, Mr Chairman, I have put together a
summary of the overall statement, and I expect that it will
run about 20 minutes, or thereabouts.

Senator Proxmire. Okay. Fine. Go right ahead.

Mr. Gates. Let me start with the Soviet Union and
economic developments in the past two years.

Last year and the year before, growth in the Soviet
Gross National Product averaged about 2 percent per year,
somewhat above the level attained during 1979-80, but well

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China: Trade Organizations Specializing in Acquisition
of Military/Scientific Technology

China Northern Industries
Company (NORINCO)

Established in 1975, NORINCO is the trading arm of the Ministry of Ordnance (conventional arms). NORINCO is the primary Chinese arms dealer whose primary collection mission is to acquire foreign technologies that can be used to upgrade China's military industries. It has recently expanded its commercial operations into many civilian industrial sectors.

China Great Wall Industrial
Corporation

This corporation was established in 1978 as a trading and technology corporation for the Ministry of Space Industries. Its primary collection mission is to coordinate the acquisition of technology acquisition for the missile and space communications industries.

China New Era Corporation
(Xinshidai)

This corporation was established in the spring of 1980 by the Ministry of Space Industries to obtain strategic technologies. It cuts across ministerial lines and represents industries of other ministries producing such military-related equipment as vehicles and textiles.

China Hua Feng Industrial
Corporation

This corporation appeared in 1982 and was first identified as a subordinate corporation of the Ministry of Space Industries. Its primary interests are computers and telecommunications and related technologies.

This table is Unclassified.

US-China Trade Prospects

We believe there is potential for continued growth in US-China trade over the next several years, although at a pace more moderate than the rapid increases of 1978-80 (see table). By 1981, bilateral trade had increased from a level of 374 million dollars in 1977 to a strong 5.5 billion dollars, and the United States is firmly entrenched as China's third largest trading partner (after Japan and Hong Kong).

In 1982, China reduced its worldwide imports by 10 percent and its imports from the United States by 19 percent. At the same time, China's exports to the United States rose 21 percent, partly on the strength of a 34-percent increase in textile sales. In first half 1983, China's imports from the United States were down a sharp 39 percent. This reflects reduced Chinese purchases of cotton and a variety of agricultural commodities that resulted from both China's domestic economic situation and its retaliation against US imposition of import quotas on Chinese textiles. Exports to the United States were up a slight 3 percent.

We expect total bilateral trade to rise next year. China's imports of cotton and synthetic fibers, we believe, will rebound, as will grain purchases from the United States. We also expect US suppliers to take part increasingly in the upgrading of China's industrial facilities planned that is for the next several years. US imports of textiles from China will also continue to grow, boosting that side of the trade equation.

US-China Trade


(million US \$)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
US Exports	135	171	865	1724	3755	3603	2912
US Imports	202	203	324	594	1058	1875	2275
Balance	-67	-32	541	1130	2697	1728	637
Annual Change, Total Trade (%)		11	281	95	108	14	-5


Billion US Dollars

	<u>Jan-Jun 1982</u>	<u>Jan-Jun 1983</u>	<u>Percent Change</u>
US Exports	1707	1034	-39
US Imports	1041	1071	3
Total Trade	2748	2105	-23


Chinese Defense Spending

Our estimate of expenditures for defense shows that outlays grew steadily in real terms during the late 1970s and peaked in 1979 to pay for the War against Vietnam. In 1979, for example, we estimate that the Chinese spent 11 percent of their GNP on defense. 

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Since 1979, China's well publicized economic retrenchment has forced cutbacks that in 1981 brought expenditures for defense to their lowest level since 1974. We believe that the defense budget made a modest recovery in 1982, rising by 6 percent. Projections for the Sixth Five-Year Plan (1981-1985) suggest that spending will hold at the 1982 level through at least 1985 (see figure). 

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As increasing share of defense spending is being allocated to weapons development and procurement of new weapons. Progress made in recent years in trimming the size of the armed services and phasing out the production of outdated weapons is freeing funds for weapons research and the production of a new generation of weapons. Defense Minister Zhang Aiping, in a recent party journal, calls development and production of sophisticated military hardware the "first task" in defense modernization. 

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An additional, often overlooked, source of defense funding is Beijing's profits from international arms sales. Since 1980, Beijing has registered sales of close to \$5 billion. Moreover, defense plants now use excess production capacity to produce consumer items for both domestic and foreign markets. We believe a portion of the profits from those measure will be used to

support weapons research and development and help modernize defense plants.

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China almost certainly will need to increase the military budget substantially in the 1986-90 time frame to procure weapons now in the pipeline. For the time being, lack of suitable follow-ons to the People's Liberation Army's (PLA) most expensive weapons, such as aircraft and armor, will obviate a call for greater defense spending. Moreover, the PLA leadership's apparent acceptance of current spending levels--in expectation of reaping benefits from overall economic improvement--should help to prevent the military budget from becoming a major area of contention through 1985.

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